CITY OF HOUSTON
Finance Department

Interoffice
Correspondence

To: Budget and Fiscal Affairs Committee

From: Michelle Mitchell – Director
Finance Department
David Arthur – Assistant Director, Finance
Houston Airport System

Date: February 29, 2008

Subject: **Houston Airport System, Series 2008 Bonds**

The purpose of this memo is to review the upcoming sale of the Houston Airport System Revenue Refunding Bonds, Series 2008A. On March 6, 2007, Council approved the parameter sale of up to $450 million for the Houston Airport System. This was comprised of the Subordinate Lien Revenue Refunding Bonds Series 2007A (the "Series 2007A Bonds") and the Airport System Subordinate Lien Revenue Refunding Bonds Series 2007B (the "Series 2007B Bonds"). Two series of bonds were required to differentiate the AMT Bonds from the Non-AMT Bonds. On July 25, 2007 the Series 2007B Bonds in the amount of $299 million were successfully priced, and closed on September 12, 2007. On August 14, 2007 the Series 2007A Bonds went to market but the transaction was postponed by the City due to volatile and unfavorable credit markets.

On October 23, 2007, Council again approved the completion of the sale of the 2007B Bonds, and approved the additional refunding of the Series 1997A Bonds that were not part of the original plan. The intent at that time was to return to the market and complete the sale of the Series 2007A as well as refund the Series 1997A Bonds in December 2007. Again, market conditions deteriorated in the lead up to the pricing and the deal was once again postponed.

Given the improvements in the long-term sector of the credit markets, another attempt is being made to complete this transaction. In addition, the City's Financial Advisors have identified additional series of bonds that will be eligible for current refunding on April 2, 2008. The HAS Series 1998A and the 1998B Bonds, in a par amount of up to $310 million can now be refunded for savings. The net present value savings on refunding these bonds is approximately 3%. Finally, the Finance Working Group ("FWG") recommends the refunding of HAS Series 2002C, D-1 and D-2 Bonds, which are Auction Rate Securities ("ARS"). In light of current market conditions these 2002 Auction Rate Bonds are a less efficient structure for the City and the FWG recommends these bonds be refunded and re-issued as fixed rate bonds. A memo was presented to the Budget and Fiscal Affairs Committee on March 4, 2008 outlining the difficulties that ARS are currently experiencing. These refundings, further detailed in the following chart, are being consolidated into one issue to minimize the additional expense of multiple transactions and to close as soon as possible.

Refundings		Estimated Size
Series 1997A	Previously Delayed	$48 million
Commercial Paper	Previously Delayed	$77 million
Series 2002C, D-1 and D-2	ARS	$280 million
Series 1998A	Current Refunding	$51 million
Series 1998B	Current Refunding	$259 million
Total		**$715 million**

The syndicate will be the same with the exception of JPMorgan being added along with UBS Investment Bank as Senior Book Manager. The bonds will be sold by negotiation through a syndicate headed by UBS Investment Bank and JPMorgan as the Senior Book Running Managers; Citigroup Global Markets, Inc., and Ramirez as Co-Senior Managers; and First Albany, Loop Capital, Merrill Lynch, and Southwest Securities as Co-Managers. Vinson & Elkins, L.L.P. and Bates & Coleman, P.C. will serve as co-bond counsel. Fulbright & Jaworski LLP and Escamilla & Poneck, Inc. will serve as special disclosure co-counsel. Winstead, Sechrest & Minick will serve as underwriters counsel. The Co-financial advisors are First Southwest Company and Estrada Hinojosa.